

Message Text

CONFIDENTIAL

PAGE 01 CAIRO 01558 01 OF 02 271819Z

ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01

A-01 OPR-02 SY-05 EB-08 TRSE-00 ACDA-07 SAJ-01 /081 W

-----272039Z 071132 /44

R 271331Z JAN 77

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 1047

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 1558

E.O. 11652: GDS

TAGS: PINT EG

SUBJECT: THE RIOTS: ASU FIRST SECRETARY'S ASSESSMENT

SUMMARY:

MUSTAFA KHALIL, WHO IS HEAD ASU, MEMBER NSC INNER CIRCLE AND LEADING GOE ECONOMIC ADVISOR, BELIEVES RIOTS DUE INITIALLY TO KAISOUNI'S FAULTY POLITICAL JUDGMENT AND SUBSEQUENTLY TO RPIMIN'S SECURITY MISCALCULATIONS. ORGANIZED LEFTIST CASRES, SOME NONNECTED WITH HABASH, CLEARLY EXPLOITED WHAT WE INITIALLY NON-VIOLENT DEMONSTRATIINS BY DISMAYED POPULACE. KHALIL THINS ECONOMIC REFORMS SHOULD BE RESUBMITTED GRADUALLY AND CAREFULLY. SADAT HAS HELD HIMSELF ABOVE POLITICAL TRAUMA IN ORDER AVOID UNDERCUTTING FRAGILE NEW POLITICAL SYSTEM. KHALIL, NOT SALIM, GAVE ACCURATE BLOW BY BLOW REPORTS TO SADAT AND HE AND MAR'I PREPARING NEW ECONOMIC PROPOSALS. US AND RICH ARABS MUST HELP.

1 ASU FIRST SECRETARY MUSTAFA KHALIL, WHO ALSO MEMBER NATIONAL SECURITY COUNCIL, MADE FOLLOWING COMMENTS JANUARY 26 TO EMOFFS ON GENESIS OF RECENT RIOTS, GOE HANDLING OF THEM AND CONSEQUENT ECONOMIC AND SECURITY CONCERNS. HIS DESCRIPTION OF EVENTS IS CLEARLY SELF-SERVING, BUT GIVEN HIS CENTRAL POLITICAL POSITION, OF CONSIDERABLE INTEREST.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 01558 01 OF 02 271819Z

2. CHRONOLOGY: IN KEEPING WITH HIS PREVIOUS ADVICE THAT IMF REFORMS MUST ONLY BE IMPLEMENTED VERY GRADUALLY, KHALIL HAD TOLD KAISOUNI EVEING JANUARY 14 THAT KAISOUNI WOULD MAKE DANGEROUS POLITICAL ERROR IF HE ANNOUNCED SIGNFICANT PRICE RISES ON BASIC COMMODITIES, AND ESPECIALLY IF HE MENTIONED IMF PRESSURES AS CONTRBUTING TO DECISION (IMF BEING SYNONOMOUS IN PUBLIC MIND WITH FOREIGN BANKS WHICH "CONTROLLED" EGYPT IN

LATE 19TH CENTURY). KAISOUNI, HOWEVER, LOOKED AT SITUATION ONLY FROM ECONOMIST'S PERSPECTIVE.

A. JANUARY 17 KAISOUNI ANNOUNCEMENT OF PRICE RISES AND MEETINGS
T
OF IMF. ANNOUNCEMENT WAS NEWS TO CENTER PARTY RANK AND FILE, SAYYID MAR'I, KHAIL AND PRESIDENT SADAT. NONE OF THEM HAD EVEN SEEN LIST OF INDIVIDUAL PRICE RISES.

B. EVENING JANUARY 17: KHALIL HAD REPORTS THAT DEMONSTRATIONS LIKELY NEXT DAY. HE CONTACTED PRIMIN SALIM, WHO SAID NO TROUBLE BREWING.

C. JANUARY 18; EGYPTIAN CROWDS WHO GATHERED TO PROTEST PRICE RISES WERE INITIALLY NON-VIOLENT. HOWEVER, LEFTISTS HAD ALREADY GATHERED IN GROUPS THROUGHOUT EGYPT TO CELEBRATE ANNIVERSARY NASSER'S BIRTHDAY AND WHEN WORD SPREAD THAT POPULAR DEMONSTRATIONS WERE IN PROGRESS, LEFTISTS WERE POISED TO EXPLOIT THEM. EVIDENCE OF LEFTIST ROLE AND PREPAREDNESS ARE INDISPUTABLE: SLOGANS SHOUTED WERE THE SAME IN ALL EGYPTIAN CITIES, TRUCKS WERE SEEN CARRYING ROCKS, GROUP OUTSIDE AHRAH HAD KEROSINE IN CANS, AND SUCCESSFUL EFFORT WAS MOUNTED TO ORGANIZE SCATTERED DEMONSTRATIONS SO THAT POLICE UNABLE TO OCONCENTRATE THEIR FORCES. (COMMENT: A RELIABLE EYEWITNESS TELLS US THAT AT ABOUT 1800 HOURS GROUP OF INDIVIDUALS ARRIVED AT PEACEFUL PA DEMONSTRATION THEN QUICKLY DISPERSED THROUGHOUT CROWD, ADVOCATING VIOLENCE AND TEACHING CROWD CHANTS.)

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 01558 01 OF 02 271819Z

D. EVENING JANUARY 18: KHALIL TOLD SLIM THAT PEOPLE'S DISTRESS, COUPLED WITH CLEVER AND ORGANIZED INCITEMENT, REQUIRED IMMEDIATE USE OF ARMY, IMPOSITION OF CURFEW AND ANNOUNCEMENT OF PRICE ROLL BACK. SALIM SAID SITUATION NOT THAT SERIOUS. KHALIL THEN CALLED PRESIDENT AT ASWAN, WHO HAD PREVIOUSLY BEEN BRIEFED BY SALIM; PRESIDENT WAS ASTONISHED TO LEARN OF ESCALATION OF VIOLENCE. PRESIDENT AGREED TO KHALIL'S THREE SUGGESTIONS AND TOLD KHALIL TO INFORM SALIM. DESPITE SALIM'S ASSURANCE THAT HE WOULD GO ON TV THAT EVENING TO MAKE SUCH ANNOUNCEMENTS, NOTHING HAPPENED.

E. JANUARY 19: KHALIL DISTRESSED THAT SALIM HAD NOT ISSUED ORDERS AND HE WENT TO PM'S OFFICE AT 0900. AT NOON SALIM FINALLY AGREED TO CURFEW AND USE OF ARMY, BUT IT WAS ONLY AFTER KHALIL AND FUAD MUHI AL-DIN (MINISTER OF STATE FOR PEOPLES ASSEMBLY AFFAIRS) INSISTED, THAT HE CALLED THE PRESIDENT AND RECEIVED ORDER TO ROLL BACK PRICES. KHALIL AND MUHI AL-DIN WROTE ORDER AT 1420 AND 1430 NEWS HELD FOR NINE MINUTES TO CARRY ITEM. THESE MEASURES WERE EFFECTIVE IN QUELLING RIOTS.

F. NATIONAL SECURITY COUNCIL MEETINGS JANUARY 22 AND 23.
PRESIDENT EXPRESSED DEEP CONCERN OVER PRESERVATION DEMOCRATIC
PROCEDURES. SUGGESTION WAS MADE THAT HE ADDRESS THE NATION,
BUT IT WAS FEARED THAT THIS WOULD UNDERCUT CONCEPT OF
CABINET RESPONSIBILITY. THROUGHOUT CRISIS SADAT LEFT ALL
DECISIONS IN HANDS OF CABINET. THIS, PLUS FRANK AND COMPLETE
MEDIA COVERAGE OF RIOTS, WERE EVIDENCE THAT GOE'S
COMMITMENT TO POLITICAL LIBERALIZATION HAS NOT LESSENED.

3. WHO WERE THE INCITERS? UNTIL INTERROGATIONS ARE
COMPLETE IT IMPOSSIBLE TO KNOW IF LEFTIST PARTY CULPABLE.
INDISPUTABLE EVIDENCE SHOWS COMMUNIST AGITATORS WERE AT WORK,
INCLUDING COMMUNIST WORKERS PARTY WHICH, KHALIL VOLUNTEERED, IS
CONNECTED WITH PFLP LEADER GOERGE HABASH. LOTTING OF CASINOS
WAS WORK OF IKHWAN WHO, LIKE COMMUNISTS, OPPOSED ME PEACE
SETTLEMENT AND OPEN DOOR (WHICH IN PUBLIC MIND IS OPENING TO WEST).
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 CAIRO 01558 01 OF 02 271819Z

COMMUNIST/IKHWAN COORDINATION EXISTED BUT PROBABLY NOT PRE-
MEDITATED.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 01558 02 OF 02 271844Z
ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01
A-01 OPR-02 SY-05 EB-08 TRSE-00 ACDA-07 SAJ-01 /081 W
-----272039Z 071744 /44

R 271331Z JAN 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 1048

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 1558

4. REVISED ECONOMIC POLICY. ON JANUARY 1, KHALIL HAD ARGUED
TO NATIONAL COUNCIL ON PRODUCTION THAT WHILE KAISOUNI IS
TECHNICALLY CORRECT IN WISHING CARRY OUT PRICE REVISIONS IN ONE
YEAR PERIOD, SUCH PLAN IS POLITICALLY IMPOSSIBLE. PUBLIC WAS
UNDER IMPRESSION PRICES STEADY AND HAD INFERRED FROM SADAT'S

SPEECHES THAT PRICES OF BASIC COMMODITIES MIGHT EVEN BE LOWERED. KHALIL HAD PROPOSED SAME PRICE INCREASES BE SPREAD OVER THREE YEAR PERIOD, WITH INITIAL SUBSIDY MONEY SAVED TO BE APPLIED TO SUBSIDIZING LOWEST CLASS INCOMES. PROGRAM SHOULD BE ANNOUNCED IN TERMS WHICH EMPHASIZE THAT RICH EGYPTIANS WILL BEAR MOST BURDEN. INTEREST RATES SHOULD BE RAISED TO ATTRACT DOMESTIC CAPITAL; EGYPTIAN RESIDENTS ABROAD SHOULD BE ENCOURAGED SAVE AT HOME BY GUARANTEEING CONVERTIBILITY AND RAISING INTEREST RATES. EGYPTIAN INVESTORS AS WELL AS FOREIGN INVESTORS MUST BE ENCOURAGED. SUCH PROGRAM WOULD, OVER ADMITTEDLY LONGER PERIOD, IMPEL ECONOMY TOWARD KAISOUNI'S TWIN AIMS; I.E. THAT THE EGYPTIAN POUND FIND ITS REAL LEVEL AND THAT EGYPTIAN ECONOMIC "MECHANICS" BE CONSTANT WITH INTERNATIONAL CONDITIONS.

5. KHALIL IS DRAFTING PAPER EMBODYING ABOVE IDEAS FOR MAR'I TO SUBMIT TO THE PRESIDENT. HE SPECIFICALLY ASSERTED THAT BASIC COMMODITY PRICE RISES WOULD BE PUT INTO EFFECT, BUT OVER LONGER PERIOD THAN KAISOUNI HAD ENVISAGED AND IN MUCH MORE CAREFULLY PREPARED PACKAGE, WHICH WILL EMPHASIZE BURDEN TO BE CARRIED BY PRIVILEGED CLASSES.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 01558 02 OF 02 271844Z

6. APPEAL FOR U.S. SUPPORT AND IMPACT ON ME PEACE SETTLEMENT. KHALIL SAID THAT IF SADAT GOVERNMENT DISAPPEARS ME PEACE PROCESS WILL COME TO END. THEREFORE, HE APPEALED FOR IMMEDIATE SUPPORT FROM U.S. AND RICH ARABS (WHO WOULD REQUIRE "GREEN LIGHT" FROM WASHINGTON.) (CAIRO 1486). WITH REGARD TO SIGNIFICANCE OF NAGUIB MAHFUZ'S SUGGESTION THAT IF RICH ARABS TURN THEIR BACK ON EGYPT, EGYPT SHOULD DO SAME (CAIRO 1488), KHALIL SAID MAHFUZ IS UNINFORMED AND THIS WAS EMOTIONAL REACTION. EGYPT CANNOT POSSIBLY OPT OUT OF ARAB STRUGGLE AGAINST ISRAEL.

7. COMMENT: (AS MOST NON-GOVERNMENT OBSERVERS DO) KHALIL COULD NOT BE EXPECTED TO SAY THAT CORRUPTION, INEQUITABLE DISTRIBUTION OF WEALTH, AND NEGLECT OF PLIGHT OF POOR WERE AMONG ROOT CAUSES OF VIOLENCE. YET, BY NOT PUTTING FORTH AN ALTERNATIVE EXPLANATION HE LEAVES IMPRESSION THAT GOE CAN SOLVE ITS PROBLEMS WITH MORE POLITICAL SAVVY, BETTER PR PROGRAM, GRADUALIST APPROACH, AND HIGHER INTEREST RATES.

8. ACCORDING TO HIS ACCOUNT, KHALIL HAS HAD HIS POLITICAL JUDGMENT VINDICATED WHILE SALIM HAS NOT ONLY SHOWN ABSENCE OF SENSITIVITY TO EGYPTIAN POPULAR CLIMATE BUT, MORE SERIOUSLY, WAS RECEIVING AND TRANSMITTING TO PRESIDENT OVERLY OPTIMISTIC REPORTS OF EVENT WHEREAS KHALIL HAD HIS FINGERS ON REAL PULSE OF COUNTRY. KHALIL'S REMARKS WERE ALSO NOTABLE FOR THEIR ASSUMPTION THAT HE AND MAR'I ARE THE REAL POWERS, THOUGH

THE SALIM CABINET WILL BE RETAINED FOR THE SAKE OF POLITICAL
EXPEDIENCY. (HALIL CLAIMED THAT WHEN ANGRY ASP
MEMBERS DEMANDED SALIM RESIGNATION, KHALIL POINTED OUT
THAT IF GOVERNMENT FELL, PARLIAMENT SHOULD DISSOLVE AND
CENTER PARTY LIKELY TO SUFFER SEVERELY IN SUBSEQUENT ELECTIONS
BECAUSE IT HAD APPROVED MEASURES, THOUGH WITHOUT STUDYING
THEM.) KHALIL DETERMINATION PRESERVE DEMOCRATIC
INSTITUTIONS PERVADED HIS RECITAL, AND PRESUMABLY REFLECTS
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 01558 02 OF 02 271844Z

THE PRESIDENT'S OWN DESIRES. THUS, FOR EXAMPLE, KHALIL SAID
HE DRAFTED THE ECONOMIC STOP ORDER IN MANNER WHICH WOULD SET
UP ECONOMIC MINISTERS (ESPECIALLY MINFIN) RATHER THAN
ENTIRE CABINET, SHOULD SCAPEGOAT HAVE TO BE FOUND.

O. WE HAVE NOT HEARD BEFORE KHALIL'S CLAIM THAT COMMUNIST
LABOR PARTY CONNECTED TO HBASH, BUT HABASH IS, AS ADDRESSEES
AWARE, DEDICATED NOT ONLY TO EXTINCTION OF ISRAEL
BUT EVEN MORE BASICALLY TO OVERTURN OF ALL ARAB NON-REVOLUTIONARY
GOVERNMENTS.
EILTS

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PERSONAL OPINION, CIVIL DISORDERS
Control Number: n/a
Copy: SINGLE
Sent Date: 27-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977CAIRO01558
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770030-0326
Format: TEL
From: CAIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770114/aaaaaltb.tel
Line Count: 249
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 89cd38d0-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 24-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3489049
Secure: OPEN
Status: NATIVE
Subject: THE RIOTS: ASU FIRST SECRETARY'S ASSESSMENT SUMMARY: MUSTAFA KHALIL, WHO IS HEAD ASU, MEMBER NSC INNER
TAGS: PINT, PINS, EG, (KHALIL, MUSTAFA)
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/89cd38d0-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009